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College of Business Administration

THESIS

Profit Sharing and Its Modern Forms From the Employer Viewpoint

by

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submitted in partial fulfillment of the requirements for the degree of

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CHAPTER I

I. An Introductory Survey of Profit Sharing

A. Definition of Profit Sharing and Scope of the Study

For the purposes of this study profit sharing is defined as payments in the form of cash, given under a predetermined and continuing policy by the management of a company to all, or any group, of its officers or employees in addition to their established wages or salaries. Specifically excluded are such forms of extra wage or salary compensation as royalties or other payments based directly upon the adoption of specific inventions or suggestions, sales commissions, individual bonuses based solely on measured production or reduction in operating cost, attendance and Christmas bonuses, payments on insurance or to retirement or other benefit or savings plans not based directly on profits, and payments under any individual contract for the employment of a specified person at compensation determined in whole or in part by volume or profit.

In a resolution passed by the International Congress on Profit Sharing in Paris in 1889, profit sharing was defined as a system "whereby, according to an arrangement voluntarily made by the management, a number of employees in a business enterprise receive in addition to their regular wages a definite, previously determined part of the net profits." [1] To be more specific, a pure profit-sharing plan is inclusive of the following factors:

1. The amount to be distributed among participants depends

[1] Daugherty, Carroll R., Labor Problems in American Industry, Boston: Houghton Mifflin Co., 1941. p. 623.

principally on earnings.

2. The proportion to be distributed is definitely determined in advance.

3. The benefits of the plan are extended to at least one-third of the ordinary wage-earning or salary-earning employees.

Profits are defined as the actual net balance or gain realized from the operations of the undertaking in relation to which the scheme exists, and the sums paid to the employees out of the profits are to be directly dependent upon the profits.

This study is an attempt to survey the field of profit sharing, with emphasis on plans in operation since 1920, and to arrive at a conclusion as to the desirability of profit sharing under existing conditions, from the viewpoint of the employer.

B. The Development and History of Profit Sharing in America [1]

The history of profit sharing extends over a century and a quarter, and in that time the total number of plans established is about 1,000 or 1,200. In the United States profit sharing was fostered entirely by employers. The first known systematic plan of profit sharing in the United States was inaugurated in 1794 by Albert Gallatin in his glass works in Pennsylvania, on the grounds that "the democratic principle upon which this Nation was founded should not be restricted to the political processes, but should be applied to industry." [2]

[1] This material was derived principally from: United States Senate, Survey of Experiences in Profit Sharing and Possibilities of Incentive Taxation; Hearings before a Subcommittee of the Committee on Finance. . . Pursuant to S. Res. 215 . . . , Washington, 1939. pp.7-8

[2] Ibid., p.6.

Although Gallatin's plan was the first established in America, in France a profit-sharing plan was introduced in 1842 by Leclaire, who is known as the "Father of Profit Sharing." The French plans which followed were an expression of the social reform movement which followed the Napoleonic wars.

Horace Greeleyhad a profit-sharing plan in the New York Tribune and was an advocate of its mutual benefits. In 1869, Brewster & Company,carriage builders of New York, established a plan of profit-sharing which was terminated by a strike in 1871. Pillsbury Flour Mills, of Minneapolis, Minnesota, established a plan in 1882. In 1886 the N. O. Nelson Company, of St. Louis, initiated direct profit sharing in the Company, which continued with success until it was abandoned during the recent depression. In 1884 the Baltimore & Ohio Railroad Company inaugurated a "pension relief-savings" plan which operated until 1938. The Procter & Gamble plan, established in 1886 as a profit-sharing and general employee relations program, still continues in a modified form. The Ballard & Ballard Company, Louisville, also set up a plan in that year but terminated it in 1918.

Other prominent companies which have adopted profit-sharing plans are the Simplex Wire & Cable Company, of Cambridge, Massachusetts, in 1901; Hibbard, Spencer, Bartlett & Company, of Chicago, in 1902; the R. J. Reynolds Tobacco Company, Winston-Salem, North Carolina, and the Eastman Kodak Company, in 1912; the Edison Electric Illuminating Company, of Boston, in 1913; the California & Hawaiian Sugar Company, Crockett, California, in 1914; and the Cleveland Twist Drill Company, Cleveland, in 1915. These plans were still in existence in 1939.

In 1916, Sears, Roebuck & Company, of Chicago, initiated a plan under which the company distributes five percent of its net profits. This plan is still in operation. In 1918 the Joslyn Manufacturing & Supply Company of Chicago adopted a "profit-sharing-saving-retirement fund." In 1919 the Endicott-Johnson Shoe Company, Endicott, New York, inaugurated a broad employee relations plan of profit-sharing including a medical and hospitalization program. From 1920 to 1947 the General Electric Company of Schenectady, New York, operated a plan of profit-sharing coupled with savings. This plan will be discussed later under "Discontinued Plans." The Westinghouse Electric and Manufacturing Company of Pittsburg instituted a plan in 1936. Fairbanks Morse and Company of Chicago adopted profit sharing in 1937.

During the period of World War 1 and immediately following the war, when profits mounted, about five times as many plans were initiated as in the preceding decade, when bills for compulsory profit sharing were introduced into the Massachusetts legislature in 1903 and 1904, but were defeated. [1]

In 1917 the United States Bureau of Labor Statistics found sixty plans of profit-sharing in operation in the country, under which distributions of specified proportions of net profits were made to at least one-third of a company's personnel. Under a much larger number of plans profits were shared with a few important employees only. [2] A study made in 1920 reported on ninety-seven active plans, which were

[1] Aneurin Williams, Copartnership and Profit Sharing, New York: Henry Holt and Co., 1913. p. 227.

[2] Boris Emmet, Profit Sharing in the United States, Washington, 1917, (United States Bureau of Labor Statistics, Bulletin No. 208.)

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distributed as follows: true profit sharing, forty-one; limited profit sharing, fourteen; wage bonus plans, thirty; and savings sharing plans, twelve. [1] In the same year the National Civic Federation, which interpreted the term profit sharing quite broadly, described 214 American plans of profit sharing, grouped as: percentage plans, forty-six; special distributions, 143; exceptional plans, twenty-five. [2] Balderston's study found thirty-three plans had been initiated in the period 1931-1936. A study made in January, 1945, by Stewart and Couper, recorded eighty-nine plans which had been established since then.

The Bureau of Revenue has recently issued an analysis of the number of profit-sharing plans approved by it up to August 31, 1946. In all, 2,508 plans were processed covering 332,589 employees. [3]

In terms of the movement as a whole, the proportion of discontinued plans is high. Of the 193 plans known to have existed in the United States up to 1936, it is estimated that about 60 percent had been discontinued by that time. [4] In the decade that followed World War 1, special plans of profit sharing for executives designed as financial incentives began to be more widely adopted by American corporations. This shift from profit sharing for all employees to managerial profit sharing had been under way for some time; in 1917 profit-sharing plans

[1] National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments, Boston, 1920 (Research Report No. 29) p. 81.

[2] National Civic Federation--Profit Sharing Department, Profit Sharing by American Employers, 2d ed., New York, 1920, pp. 24-187, 266-303.

[3] Notes and Quotes. Connecticut General Life Insurance Co., December 1947.

[4] C.C. Balderston, Profit Sharing for Wage Earners, New York: Industrial Relations Counselors, Inc., 1937, p. 28.

for executives greatly exceeded in number those that benefited employees in the lower ranks.[1] The spread of profit sharing and stock bonuses for executives, with the increases in the total executive compensation of many corporations, was also an expression of a change in industrial management in the United States. Corporations had become more predominently professionally managed than owner-managed. After the Securities and Exchange Commission regulations evoked publicity on executive compensation, trade unions were quick to support demands for higher wages by reference to the liberal salaries and bonuses paid to top executives.

In recent years, and especially during World War II, profit sharing has encountered new difficulties by reason of enforced disclosure of executive compensations, the government's wage and salary stabilization policy, higher personal income taxes, which have the effect of depriving the profit sharer of part of his bonus, and the uncertainty of the attitude of the courts. These factors in part account for the trend to trusteed profit-sharing plans under which the shares of profits are set aside in trust for the future benefit of employees -- a device that reduces corporate taxes, since such appropriations are deductible as operating expenses for tax purposes. It also avoids charges of discrimination in favor of executives.

Yet, with all the difficulties, there has been a distinct movement toward pension and profit-sharing plans. We see this trend in the following quotation from an article by Mr. Norman D. Cann:

> By March 31, 1945, over 7,500 plans had been submitted to the Bureau of Internal Revenue for advance ruling as to their qualification under Section 165 (a).

[1] Boris Emmet, Profit Sharing in the United States, op. cit., p. 11.

> There are now probably more than five times as many plans in existence as there were prior to our entry into the war, more than ten times the number there were prior to the outbreak of the European war in 1939, and about twenty times the number in existence prior to the enactment of the Social Security Act less than ten years ago. [1]

The rapid advance in wage rates in the past two years has given employees a larger "take home" pay than they formerly received in earnings and shares in profits. If wage rates remain at present levels, some employers feel that it will not be fair to the stockholders to maintain any form of extra compensation in supplement to wages.

C. Some Studies of Profit Sharing

The number of American profit-sharing studies is out of proportion to the almost insignificant position the movement has attained in industry. They evolved from an uncritical acceptance of profit sharing as a moral duty of employers to a more objective and analytical approach.

The earlier writers favored profit sharing on the ground that industrial strife was caused mainly by conflict between employers and employees about the division of a company's income among shareholders, management and wage earners. These writers believed that the wage system was too rigid. They advocated that wages should be moderate and stable and that management should adopt profit-sharing plans so that total profits would be increased through such incentive systems.

At the turn of the century the students of profit sharing

[1] Quoted in C. Morton Winslow, Profit Sharing and Pension Plans, New York: Commerce Clearing House, Inc., 1946. pp. 9-10.

only after a well rounded, adequately financed program of employee security has been developed and that, if entered upon, profit sharing should be used to further employee security.

In 1939 the Senate Committee on Finance made an effort to promote profit sharing. They realized that the profit system is essential to the existence of a competitive capitalistic society, and that profit sharing is one method of distributing the benefits of the profit system over a larger number of citizens. They made a study of existing profit-sharing plans with a special view to making the report available to employers who wished to establish such plans, and to advise the Federal Government of what means it could encourage the establishment of these plans.

The third study, made by B. M. Stewart and W. J. Couper for Industrial Relations Counselors in 1945, came to somewhat similar conclusions as those of Balderston. They found that profit sharing could be introduced to good advantage only in a comparatively few companies, and then it should be adopted to crown a good personnel program in which management has already discharged its primary obligations. The plan should be designed to further long-range security.

A study of executive compensation by G. T. Washington appeared in 1942, and contained material on profit sharing. Governmental and court restraints were explored. The social obligations of management were emphasized. The conclusion reached was that there must be standards of self-denial as well as efficient performance for executives.

Two volumes on profit sharing and pension plans by K.R. Clark and C.M. Winslow were published in 1946. They present a practical analysis

became more critical in their attitude. They realized that some employers used profit sharing as a device to discourage organized labor; and that in some companies profit sharing could not increase total profits through work by the employees, that poor management was responsible for low profits, as were adverse conditions. These writers did agree that a few progressive employers with an intelligent group of employees and profitable enterprises might meet success with such plans.

Studies of the 20's considered profit sharing for the executive. They found that there was greater effectiveness in profit-sharing plans for the executive than in those for the rank and file. During the depression, profit sharing for executives began to be questioned. While total executive compensation declined during the depression, it was shown to have been more stable than wages or dividends. [1] Some profit sharing plans for executives led to serious abuses. Other criticisms were that the proportions of profits resulting from the efforts of executives would not readily be determined, that their compensation would be very irregular, and finally, that such factors as publicity, higher taxes, and the public attitude, were drawbacks from the executive viewpoint.

Since the depression three significant studies of profit sharing have been made. The study made by C.C. Balderston, Dean of the Wharton School of Finance and Commerce, University of Pennsylvania, in 1937 emphasized that profit sharing is not a fundamental personnel device, that its value as an incentive is doubtful, that it should be established

[1] National Industrial Conference Board, The Economic Almanac for 1946-1947, New York, 1946, pp. 53, 104.

of planning and administration and of the effect of law and taxes on the plans. These books are particularly helpful in the actual formation and installation of profit-sharing plans.

CHAPTER II

II. Characteristics of Profit Sharing Plans

A. A Description of Profit Sharing

Any complete study of profit-sharing systems must include all employee-benefit plans to which the employer contributes any sums, or because of which the employer incurs any expenses which in the final analysis must of necessity be paid from profits. The Sears, Roebuck plan of profit-sharing is an example of the broader definition of profit sharing. The Company voluntarily established a plan by which employees receive a predetermined share of the profits. Five percent of the net profits of the company before taxes is set aside in a fund to be accumulated for the purpose of providing retirement benefits upon separation from the service of the company, the cost being charged as an operating expense.

Balderston, in Profit Sharing for Wage Earners, has designated two types of plans. The first is profit sharing and ownership by employees of at least a majority of common stock. His second type of plan is predetermined profit sharing, under which a part of employee remuneration depends upon company profits and is determined according to a formula announced in advance.

Burritt, in his book, mentions three different types of profit-sharing plans. First is the general profit sharing type, in which there is a distribution of a portion of the profits of the business as a whole. The second type is unit profit sharing, in which there is distribution of a portion of the profits of a part or separate unit of the business. The third type of plan is individual profit sharing, in which the profits to be divided may be those attributed to an individual's own efforts. "The

essential feature of profit sharing is that the employees' earnings are not definitely fixed, and that the basis upon which they vary is net profits." [1]

In spite of the experience in profit sharing, or perhaps because of this experience, the plans present no dominant pattern. Almost every possible combination of characteristics can be found. The difference in plans is most fundamental according to their coverage. That is, they vary as to whether they are designed to benefit substantially all employees or to apply only to a limited group of senior officials. The next most basic difference is between plans under which shares in profits are distributed currently and those under which such shares go into a fund for later distribution on specified conditions. The former type are called "non-trusteed"; the latter, "trusteed." The term "predetermined" designates plans in which the total amount of profits allocated for distribution is determined on the basis of a definite pre-established formula, while "arbitrary" refers to those plans under which such amounts are determined from time to time at the discretion of the management. "Fixed formula" and "discretionary" differentiate plans in which each participant's share is based automatically on a formula from those in which the individual share is left to the discretion of management.

B. Objectives of Profit Sharing

In setting up profit-sharing plans managements have held various objectives. One of the most common reasons advanced by companies

[1] Burritt, A. W., et al., Profit Sharing, Its Principles and Practice, New York: Harper and Bros., 1929. p. 5.

is that the plan might provide some type of retirement income for employees. The security of jobs and earnings is enhanced by protecting employees and their families through a savings plan against unemployment, disability, old age, and death. Other plans were started in the hope that they would arouse the participants to greater effort or would act as an incentive in other ways. However, profit sharing with the rank and file employees is not strong enough to be a financial incentive. It is only an indirect stimulus to increased effort, since profits depend on the entire working force, management, and business conditions.

Another purpose has been to reward employees for exceptional service. The most important application in this instance is for gang work incentive and incentive in unstandardized industries. Profit sharing is adaptable as a reward when close supervision is impossible, or for those occupying discretionary or managerial positions.

Profit sharing is, in many cases, motivated by the objective of reducing labor costs and providing a measure of protection to employees against risks of industry. As a method of promoting industrial peace, profit sharing is not often effective, although it has been used as an attempt to eliminate unrest and strikes. Profit sharing or any one of several bonus plans may prove helpful in securing stability of the labor supply. Its greatest importance is not in encouraging savings and economies, except where it is applied to those in managerial positions to cut costs.

Many times profit sharing is installed to promote effective management, as it stimulates employees in this group to exercise their foresight, resourcefulness and initiative. It is not wise to rely simply

on the use of profit sharing to insure continuance of effective management. Men must be selected with a view to their ability, although transfer of responsibility to them can be made more confidently if arrangement is made whereby they are to participate in profits. A prime essential for the success of any of the plans is a proper selection, training and promotion policy. Its effectiveness as an inducement to efficiency is greater among small groups, and it is an appropriate method of compensating those in managerial positions.

Profit sharing for humanitarian purposes is usually unacceptable unless it is on a firm business basis and pays its own way.

> If an employer pays salaries and profit sharing allowances, or pensions in any form, totalling more than the value of the service he receives, he must charge more for the product he makes than it is worth, in order to avoid a deficit, and then he cannot meet competition. It seems evident that an employer is not going to adopt either a pension plan or a profit-sharing plan unless he knows that his business is going to benefit thereby. A profit-sharing plan or a pension plan must pay its way to justify its operation. [1]

> Fundamentally, its purpose . . . (is to offer) greater reward for greater effort and successful business results. [2]

C. Basis of Determining the Proportion of Profits for Distribution

The amount of profits to be distributed to employees may be arrived at either on a (1) Predetermined basis, usually in terms of a percentage of net earnings after specified deductions, or (2) by arbi-

[1] George B. Buck, "Are Profit Sharing Plans a Substitute for Pensions?" The Journal of Commerce. (May 29, 1946, Reprint)

[2] Idem.

trary decision of the management each year. There seems to be considerable agreement as to the desirability of incorporating in the plan the specific terms by which the amount of money available for distribution is to be determined. There is a slight tendency to allow management more freedom of action in deciding the total amount of profits to be distributed to the executive group than in those plans covering all employees.

When plans are examined by period of initiation, it is seen that in all periods the majority of plans incorporated the predetermined basis. In the decade 1925 to 1934, the arbitrary basis was particularly unpopular, but with the marked increase in the number of plans established, especially for executives, between 1935 and 1940, a period of rising prosperity, there was an increase in the use of this method of allocating funds. However, since 1940 the plans installed have distributed profits on a predetermined basis. In many of the predetermined plans a degree of flexibility is provided by allowing the board of directors to alter the formula if such action is desirable.

Companies have employed two general methods of handling the profit-sharing funds after they have been allocated. Some managements place the available funds in trust for the future benefit of the participants. The non-trusteed type of plan provides for distributing the profit-sharing funds immediately or within a specified time, usually not more than a year.

Burritt, and his collaborators, in their chapter, "Methods of Providing for the Proportion or Amount of Profits to be Distributed," has outlined five methods of distribution which must depend on the pur-

pose of the plan.

1. Distribution of profits prior to the deduction of interest on the investment.

2. Distribution of profits after such deduction.

3. Distribution of profits prior to the deduction of dividends of stock.

4. Distribution of profits after such deduction.

5. Distribution of profits varying with the individual rate.

The authors are in favor of the first mentioned method of distribution. [1]

The amount of profits for distribution usually takes three forms. That is, stock, cash, or contributions to a fund to be utilized for social purposes. Their stock, whether or not of the preferred type, may be paid for, in whole or part, from their share of profits accrued or future. It may be necessary to restrict the amount and transfer of stock of the employees. If the stock is specially issued provision should be made for it to be transferred to the company upon withdrawal of the employee. Most employees, however, prefer to purchase common stock to attain voting privileges and to share more directly in profits.

Professor Carroll R. Daugherty has outlined the basis on which profits should be divided. He believes that the partition should come out of net income, and the proportion for distribution should be from about five to fifty percent. He gives four forms in which payments may be made. The first, is a cash payment at the end of the fiscal year or

[1] Burritt, et. al., Profit Sharing, Its Principles and Practice, op. cit., p. 198.

at stated shorter intervals. The second form is a deferred payment plan in which each employee's share is placed by the management in a savings fund or superannuation account bearing from three to six percent interest. The third form of the distribution is giving the men company stock instead of money or an account. The fourth form mentioned is under loss and profit sharing. Daugherty writes that in this latter form, ten percent should be deducted from weekly wages for a loss reserve. If a loss is sustained, each employee's share is deducted from the fund. If no loss, but a profit is maintained, each participating worker gets back his reserve contribution and, after a six percent capital stock payment, his share in the remaining profits. [1]

A variation of profit sharing has been announced by Sargent & Greenleaf Company, Rochester, New York. In their plan the employees share monthly in the distribution of ten percent of the net profits before state and federal taxes. In accepting the new plan workers agreed on the elimination of the incentive program previously in effect. [2]

Provisions for a unique profit-sharing plan--unique because the union balances it with an agreement to approve wage reductions in bad years--have been written into a new contract between the South Atlantic Gas Company and the International Union of Operating Engineers (AFL) which has in its membership operating employees of the company in Savannah, Ga., Orlando and St. Augustine, Fla. [3]

[1] Daugherty, Carroll R., Labor Problems in American Industry, Boston: Houghton Mifflin Co., 1941. pp. 624-625.

[2] Notes and Quotes. Connecticut General Life Insurance Co., (August, 1946).

[3] Notes and Quotes. Idem.

The president of the Gruen Watch Company, Cincinnati, has announced another type of profit-sharing plan. Each employee has been allocated fifteen percent of a year's pay under the company's profit-sharing plan. Every year, Gruen sets aside a percentage of its profits to be held in trust for ten years. Thereafter each employee withdraws annually a tenth of the amount accumulated to his account, or if he leaves, he may withdraw the whole amount.[1]

D. Basis of Apportionment of Profits to Employees.

The share of the total amount allocated for distribution which is received by the individual may be determined in any one of three ways. It may be entirely discretionary with management, it may be determined by application of a fixed formula related to an employee's earnings, or the formula may reflect his savings, usually in the form of contribution to a profit-sharing or retirement fund. The discretionary method is not found in any of the plans applying to all employees under which the total amount allocated for distribution is determined on an arbitrary basis.

Distribution in proportion to earnings is the dominant characteristic of non-trusteed plans for all employees and is widely accepted among trusteed plans regardless of the basis for determining the amount allocated for distribution. Distribution on the basis of earnings is not as common in the plans limited to executives as is discretionary distribution. Many of the plans specify that employees must contribute a fixed

[1] Ibid. (July 1946)

percentage of their earnings but also allow them to contribute additional amounts up to a fixed maximum percentage of their salaries.

The apportionment among individual participants of the total amount of profits available for them, at the management's discretion, is not ordinarily to be recommended. Not only the basis of participation for the group, but also for the individuals, should be definitely predetermined. If a plan includes employees whose earnings are widely divergent, it will frequently be advisable to classify them. It may be that the higher paid employees will require special inducement--absolutely and relatively larger. Therefore, different plans should be arranged for different groups of employees. As a rule distribution of profits among members of a group in proportion to wages, salary, or earnings, will prove more effective than a per capita or equal distribution.

A definite statement or agreement should be made by the employer. It must be simple in form and anticipate the contingencies which might arise; the frequency of distributions should be adapted to the character of the participating group; and provision for publicity of earnings should be made to the extent necessary to maintain the confidence of the participants. The participants must be assured that they are receiving the full amount of profits to which they are entitled under the provisions of the plan.

An important factor in attaining the objectives of a particular plan is the choice of the groups that are to be permitted to participate in the profit distribution. Prior to 1925, relatively more of the plans established tended to embrace all employees, but from 1925 to 1939 the tendency was toward executive participation only. Since 1940 there has

been a marked tendency toward the establishment of plans in which again all employees could participate.

Although plans may be described for convenience as covering all or only special classes of employees, eligibility requirements frequently place further restrictions on participation. In plans for the executive, managerial or office groups, length of service is seldom a requirement for participation, but in those having such a provision the period of service is longer for the limited group than for all employees.

In both the trusteed and non-trusteed plans the specified period of service may be anywhere from four weeks to five years, although it is usually in the range of six months to a year. Occasionally employees with less than minimum service get one-half the regular bonus or a small specified sum and allowance is sometimes made for time lost through illness. Some plans exclude certain employees: those below a specified age; those working wholly or partly on commission; those earning more than a specified wage or salary for the period; and sometimes members of trade unions. Occasionally provisions are made to exclude employees if they are guilty of unsatisfactory conduct, waste of materials, negligence of machinery and equipment, irregularity in employment or absence without sufficient cause, inefficiency, or breach of discipline.

The active trusteed plans provide for payment to an employee of part or all of the money held to his credit when he leaves the company's service, under certain conditions, such as retirement, disability or death. Limitations on the amount received are generally applied when an individual's employment is terminated for other causes, such as permanent layoff

or resignation. In no case do employees lose their own contributions. In some cases the amount forfeited is distributed among the remaining participants; in others, such amounts revert to the company.

Employees are afforded protection against losses by the provisions in the investment of funds that are found in the trusteed plans. Some plans limit to a small percentage the funds that may be invested in company stock, although others allow the trustees complete discretion. In a few cases, plans stipulate that employee contributions only must not be invested in company stock. In some cases the Securities Act of 1933 governs the investment of profit-sharing funds.

Although many advocates of profit sharing have urged that shares of profit be distributed to employees in stock of the company or invested by the trustee in company stock, this procedure has not been widely adopted as full disclosure must be made to the Securities and Exchange Commission of the reasons for such arrangements and of the conditions under which such investments are made. There is a tendency to incorporate stock ownership features in profit-sharing plans during periods of rising prosperity, such as 1920 to 1924, and 1935 to 1944. In the 1920 to 1924 period twenty-nine percent of the plans involving stock ownership were for higher ranking employees, while in the 1935 to 1939 period sixty percent of the plans covered the executive group as compared with thirty-five percent in the 1940 to 1944 period. [1]

[1] Stewart, Bryce M. and Couper, Walter J., Profit Sharing and Stock Ownership for Wage Earners and Executives, Industrial Relations Counselors, Inc., New York, 1945, pp. 29 and 32.

CHAPTER III

III. Administration and Experience

A. Administration [1]

The greatest majority of plans are administered by the company board of directors or other management representatives, such as the personnel or industrial relations managers. Only a few of the plans allow employee representatives to aid in administration.

However, a plan of profit-sharing in which the process of installation and operation brings the employees in an organized way into a sharing of the administration can become fundamentally educational. Joint cooperative action can help both to minimize any sense of arbitrary philanthropy and to maximize the beneficent effects on the employees' attitude toward the company. The wise place to start with profit-sharing is with joint determination of amounts of work and related amounts of pay. The start should be made with problems surrounding the conduct and improvement of each job; and the attempt should be to build the worker's interest, knowledge, sense of responsibility, and reward up from the place, the outlook, and the reward which he now has.

In this process of negotiation, it will be reasonable to bring up for joint consideration the financial policies which help to determine the available "wage fund." In this way, employees will get a knowledge about the financial situation which will show whether the proposed profit-sharing plan is developing out of sound beginnings.

[1] The following material is principally from Tead & Metcalf, <u>Personnel Administration</u>, New York: McGraw-Hill Book Co., Inc., 1933, pp. 315-318.

It may be objected that such control may eventually lead the workers to demand higher wages, which might begin to encroach upon profits. Logically, management should have no objection if some part of what might otherwise become net income goes in higher employee drawing accounts rather than in profit distribution. The fullest possible knowledge about financial affairs must be available as affording a basis for intelligent action. Account would also have to be taken of the relation of profits to credits, to extension of plant, to taxes, to advance purchases of raw materials, and the effects of getting wages too far out of line with wage rates in other firms. There would still be a possibility that workers might desire to increase wages at the expense of reserves and surpluses necessary for use in profitless periods and for extension of plant. In this case the educational value of joint conference must be relied upon.

B. Successful Plans

If a profit-sharing plan survives its first few years, its chances of failure are substantially reduced. Only about twenty-five percent of the plans initiated since 1923 have been in force for more than fifteen years. Nevertheless, in 1943 many of the companies reporting discontinuance of plans had given a fair trial to profit sharing, since fifty-four percent of the plans had functioned for more than five years at the time they were abandoned; forty-three percent, for six to fifteen years; and eleven percent, more than fifteen years. Forty-six percent remained in operation five years or less. [1]

[1] Stewart, Bryce M. and Couper, Walter J., op. cit., pp. 34-35.

The purpose in introducing a profit-sharing plan is a major factor in determining its success, for the character of business, size and location of company, and the age of its plan do not, in themselves, affect its successful operation. One purpose that stands out prominently as having been accomplished with considerable success is the adjustment of compensation. Very few of the plans established for this purpose have been discontinued. The reason for discontinuance was that the fixed wage was less than the nominal wage rate, in these cases, and when the first year of unprofitable operation followed many profitable ones, the plan did not function because the workers had come to look upon the nominal rate as the fixed wage.

In establishing profit-sharing plans, the other purpose that has met with a high degree of success is the promotion of thrift. These plans have been unlimited in character, and seem to be especially popular in large establishments. The savings feature of these plans provides for cooperative efforts by the company and the employees, regular and sustained savings by the latter being supplemented by payments from the company. The profit sharing portion is determined differently in each plan, but the goal in the majority of plans is to set the share of profits to be allocated to the savings fund at an amount which in normal years will, at least, duplicate the amount saved by the employees.

The reduction of labor turnover has long been one of the chief objectives in profit sharing. The apparently successful achievement of this objective, however, has lost some of its significance in recent years. During World War II the necessity of reducing an excessively high rate of labor turnover was a pressing industrial problem

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and not only profit sharing but many other activities in the industrial relations field were introduced with this end in view. With the end of the war this problem has become less acute.

Another objective which has seemed to meet with qualified success is that of stimulating extra effort. In plans that have this purpose, profit sharing becomes, in effect, a bonus plan. From the standpoint of type of plan, a large degree of success has been attained when these plans have been limited to executives. Cases of this type have been abandoned because under the terms of the plans, the profit shares of the executives remained in the business as credits to their accounts. These credits became so great that it was feared that a sudden demand for their liquidation might embarrass the cash position of the company.

Profit sharing payments as a reward for effort can be said to be successful when the employees covered by the plan are limited to executives and department heads, or in other words, to those who understand its possibilities and are in a position to contribute actively to the profit of the enterprise.

The Adamson Story [1]

In 1946, Cecil F. Adamson, an industrialist in East Palestine, Ohio, caused much comment by making use of an old device--profit sharing. It is, however, profit sharing with a difference. The plan is a drastic one, which most companies would be apt to shy away from. For one thing,

[1] Principally from <u>Reader's Digest</u>, (March 1947) Vol. 50, No. 299, pp. 105-108.

it involves union participation in the solution of production problems, and opening the books to the union. For another, 50 percent of profits before taxes constitute the pool from which shares are distributed. These measures contain the ingredients to make a success of the plan. These are:

1. A full and complete acceptance of the union, with continuing collective bargaining.
2. Partnership by both parties.
3. Participation in the solution of production problems.
4. A clear relationship between efforts and returns to the employees.

The Adamson Company, Inc., is personally managed by Mr. Adamson. The company he runs is not big business. The gross is somewhere in the neighborhood of $1,000,000 a year; the output is welded steel storage tanks sold mainly to oil companies and gas stations. It has always been a going concern, even during the depression; the wages have been high; and the prices have been fairly low.

The United Steel Workers of America organized the plant in 1937. Before this, there had been a history of turbulence, of strikes and union-breaking. With the union came labor-management production committees, which functioned during the war period. This experience was helpful in conditioning both union and management representatives for the problems involved in the installation and development of a profit-sharing plan. The workers learned how to participate and the management learned how to deal with constructive ideas.

A union committee, appointed for the purpose, worked with

Adamson, studying the existing profit-sharing plans. Some companies asked their workers to contribute a portion of their wages to be matched by company contributions out of profits. Others tied up the profit-sharing fund for old-age pensions, sick benefits or severance pay. A few gave a share of the profits outright, but did it at the end of the year and at the discretion of the owners. The provisions of the plan finally arrived at were simple and direct; 50 percent of the profits before taxes furnished the pool from which the shares were to be distributed on a monthly basis. Each employee's share was to be applied on a percentage basis to his total earnings of the month. The share was payable on the eleventh day of the succeeding month.

The plan was to have gone into effect on January 1, 1945, but the National War Labor Board's restrictions prevented the application. Joseph Scanlon, of the United Steelworkers' National, was petitioned for assistance, and with the original committee, drew up a substitute plan which was acceptable to the Board. The agreement reached was based on a ratio of labor costs to sales value of production. This ratio had remained fairly constant during the 1938-1944 period. Its high point was 1 to 2.86 and its low, 1 to 2.69-- with an average of 1 to 2.77. All employees, except the president of the company, participated in the bonus on the basis of 1 percent increase in their earnings for each 1 percent increase in efficiency. The ratio during the first nine months averaged 1 to 3.76. At the end of the first year's operation, the company had nearly doubled its profits. As a result, each employee had received a monthly bonus which averaged 41 percent of his monthly earnings. During this period market conditions had remained fairly stable, so that the

increased profits could be attributed to increased worker efficiency.

In August, 1945, the NWLB restrictions were removed, and it was possible to apply the originally developed plan, which is a straight out profit-sharing arrangement. The profit-sharing plan replaced the substitute on January 1, 1946. The results achieved in 1946 were even better than those accomplished in 1945. Despite a general wage and salary increase in January, 1946, of approximately 19 cents per hour and a time lag on compensating price increases, the employees' share in 1946 was above the 50 percent level, and the profits almost doubled the 1945 figure.[1]

It has been pointed out that this union-blessed profit-sharing plan has worked out for Adamson because (1) his company is a stable unit where the demand is relatively predictable, (2) the happiness of his labor force is the key to his profits, and (3) his working force is small, numbering about 150 workers. In other industries profits may depend more on styling, sales imaginations, advertising or engineering. Moreover, Adamson has only one union local with which to deal. Jurisdictional rights of two or more locals do not permit the sort of cooperative efficiency and the occasional doubling-up needed to make the Adamson idea work.

Beyond this, the corporate form of organization entails difficulties: stockholders might object rather strenuouslyto a 50-50 split of the profits with the labor force. And it is argued that few companies make enough to cut such a share of profits with the workers. A vast increase in the efficiency of a corporation such as General Motors might not lead to a similar increase in the worker's income, for the consumer

[1] Joseph Scanlon, "Adamson and his Profit-Sharing Plan", American Management Association, Production Series Number 172, April 1947, p. 12.

would insist upon a price cut. Also, the plan was installed during a boom period rather than a depression.

The success of the Adamson Plan rests on the application of sound principles of partnership to that company's specific situation. The formula might work efficiently for the many partnerships and family-owned businesses that are in operation, but the program would have to be tailored to the particular circumstances of these companies.

C. Discontinued Plans

Management has indicated various reasons for discontinuance of plans. Profit sharing, as a principle, in many cases was not abandoned, but the basis for its application was revised, while in other instances the substitution was in the nature of a bonus unrelated to profits, or a retirement plan.

Historically the failures in profit-sharing have been attributable to arbitrary introduction by management; paternalism and lack of democracy in operation; failure of workers to relate infrequent profit sharing with daily efficiency on their jobs; and ill-will engendered among workers when management failed to make expected profits or when "drone" workers received as large shares as the efficient workers.

The success or failure of profit sharing does not seem to be closely allied to the particular specifications of the plan in many cases, but rather to psychological and economic factors. It was found in 1936 that twenty-nine percent of the plans were abandoned because of either employer or employee dissatisfaction with the results, thirty-six percent of the schemes were discontinued because there were no profits to

distribute or the company had gone out of business or had changed hands. In slightly more than a tenth of the plans, another form of benefit had been substituted for profit sharing.[1]

The reasons for employer and employee dissatisfaction with profit sharing stem largely from the employee's lack of understanding of the principles involved and their inability to comprehend the influence of the business cycle upon profits. The profit-sharing plan apparently works fairly well as long as the company prospers, but dissatisfaction arises when profits diminish or disappear.

An unavoidable defect of profit sharing, especially from the standpoint of the worker, is that profits are influenced by so many extraneous factors over which he has no control, no matter how diligently he works. A change in the price structure, a turn in the business cycle, or an unforeseen contingency, such as war, can affect the prosperity of the business far more than do the acts of employees.

Lack of employee interest in profit sharing was another leading cause of discontinuance. This indifference arose because the profit distribution was so long delayed that the employee could not visualize the connection between his efforts and the bonus.

Another reason for employees' dissatisfaction was their unwillingness to accept the principles of profit sharing, even though they shared only in the gains and not in the losses. If the company has any money to distribute, they reason, the extra compensation should be put in the weekly pay envelope where they can count on it instead of making

[1] Brower, <u>op., cit.</u>, p.2.

them wait six months or a year for money which may not be forthcoming.

If the profit-sharing plan is to succeed, the wage scale in the company contemplating profit sharing should equal or exceed the going rate in the community for similar tasks. It should be impressed upon the worker that the supplemental bonus depends upon profits and is in no respect a part of wages.

The reasons given for abandoning profit-sharing plans established for the purpose of stimulation efficiency indicate that this purpose has not generally been fulfilled. Some plans were discontinued because profit sharing did not prove to be a stimulus to greater efficiency, some were replaced with other forms of incentive plans, and the rest were abandoned because the employees were dissatisfied with profit sharing.

The other largely unsuccessful purpose for profit sharing is the improvement of morale. By means of profit sharing, management had hoped to awaken within the employees a sense of partnership in the business, as a result of which renewed interest and activity would increase the profits of the company by an amount greater than that paid out in a profit sharing bonus to employees. Discontinuance was due to dissatisfaction with the results of the plans. The cause most frequently given for discontinuing profit sharing intended to bolster morale is general dissatisfaction, and the second most frequent is that it is harmful to the company in years of low profit. The most common complaint against profit sharing is that the employees come to look upon the profit sharing payment as an established part of their wage and, therefore, not only does it cease to be an incentive, but when the payments to employees are decreased or discontinued in years of reduced profits the workers look

upon this loss as an unwarranted reduction of their normal income.

Notwithstanding many cases of dissatisfaction, there are instances of expressed confidence and satisfaction on the part of the management of companies operating under profit sharing for the purpose of improving and sustaining morale. The success of profit sharing as a specific builder of company morale is not established. The influence of other factors upon industrial relations leaves in doubt the part that profit sharing may play. The evidence indicates that profit sharing has been a minor factor in this relation, and it may be said that in this respect it has failed to live up to the expectations of its sponsors.

During the war years other reasons given for discontinuing profit-sharing plans were: government interference in business,creating too much uncertainty to permit definite planning; increase in costs; and unsettled labor conditions.

The General Electric Plan

In October 1947, the General Electric Company, the nation's largest producer of electrical equipment decided to abolish the profit-sharing plan under which it distributed $3,000,000 among its 160,000 employees earlier in the year. In discontinuing the 13-year-old plan no change was made in the "extra compensation" plan for General Electric executives.

It was asserted that there was no inconsistency in abolishing one plan and keeping the other. The profit-sharing program for production workers no longer served its purpose of promoting employee interest in the welfare of the business. The extra compensation plan did serve as an incentive to executives to enhance the prosperity of the company and

to create more jobs and more earnings for General Electric employees.

The General Electric profit-sharing plan was established in 1916 by the company and was given to employees dependent upon their length of service. For service of over five years, production employees were given five percent supplementary to their annual compensation. Executives shared in the profits dependent upon annual net profits. In 1931 the plan for rank and file employees was dropped, and was reinstated in 1934 with a variation. Instead of a fixed charge, 12.5 percent of net profits were distributed to those production workers receiving less than $4,000 a year.

The company's decision was contested by the C.I.O. United Electrical, Radio and Machine Workers, which represents the General Electric production employees. It was said that withdrawal of the profit-sharing payments would deprive workers of funds at a time when prices and profits were at record heights. Abolition of the plan will be taken into account when new wage demands are made.

Profit-sharing payments will continue to be made on the company's 1947 earning and the last distribution will be in March or April 1948 after the company's annual financial statement is published.

The General Electric president, Charles E. Wilson, said that union representatives had been warned in contract negotiations in April 1947 that any further increase in wages would be followed by the elimination of the profit-sharing plan. The union won a general increase averaging 15½ cents an hour for its members.

D. Methods of Plan Operation

Since 1923, on the average, profit-sharing payments represented

2.2 percent of payroll, 6.8 percent of net operating profits, and 9.9 percent of dividends. For plans covering all employees, the average annual profit-sharing payment was $266; for those covering chief executive and/or managerial employees, $1,300; and for all plans, $750. [1]

One of the factors determining the advisability of profit sharing is the problem that arises in years when profits are insufficient to warrant allocation to the fund for distribution. Most companies indicate that no contributions are made until all losses have been made up; a few companies report that contributions are withheld until profits are resumed; the remaining companies had created reserve funds from which amounts could be transferred to the profit-sharing fund in no-profit years.

The following summary indicates the general grouping of methods in representative plans: [2]

> Company A. Unlimited plan established in 1887. One fifteenth of net profits before deduction of taxes is set aside for employees. Fifty percent of employees' share is paid in cash and the balance is paid into a fund to provide death benefits and retirement incomes.
>
> Company B. Unlimited plan started in 1907. From net profits, six percent is paid in dividends and six percent to a sinking fund. The balance is distributed to employees on the basis of their earnings, half in cash and half in company stock.
>
> Company C. Unlimited plan started in 1906. Employees receive the same percentage of their earnings that stockholders receive in dividends.

[1] Stewart and Couper, <u>op. cit.</u>, pp. 36-41.

[2] The following material is from National Industrial Conference Board, <u>Profit Sharing</u>, New York, 1934. pp. 8-12.

Company D. Unlimited plan introduced in 1905 and revised in 1925. After eight percent of net profits is paid to capital, the balance is divided equally, one half to capital and the other half to employees. Payments to employees are based on their earnings and are paid four times a year.

Company E. Unlimited plan established in 1902 and revised in 1920. After taxes, depreciation, other fixed charges and regular dividends have been deducted, fifty percent of the balance is paid to employees sith three or more years service in the form of seven percent preferred stock.

Company F. Unlimited plan started in 1907. All employees with three months' service share in distribution, receiving certificates bearing five percent interest and redeemable in company stock when issued. Distribution is made on basis of earnings and service of employees. Service ratings start at five percent for six months' service and increase five percent for each year to a maximum of fifty percent.

Company G. Unlimited plan adopted in 1916. Five percent of the amount available for payment of dividends on common stock is distributed to employees in proportion to their earnings.

Company H. Plan adopted in 1929. After eight percent of net profits have been paid to capital, the balance is distributed to employees, twenty-five percent of the total going to executives, and seventy-five percent to other employees with at least five years service on a basis of length of service and earnings.

Company I. Unlimited plan started in 1921. Employees are paid a regular wage and also a service wage which adds one percent for three months' service to the regular wage, five percent for one year's, ten percent for five years' and twelve percent for ten years' or over. After taxes, preferred dividends and seven percent for common stock and for surplus have been set aside, half of the balance of net profits is distributed among employees. Payments to individuals are based on their earnings, twenty-five percent on regular wages and seventy-five percent of service wages.

Company J. Unlimited plan adopted in 1933. After six and a half percent has been paid to capital, one quarter of the balance is distributed among employees. The system of weighting for determining individual shares is on

the basis of twice their salaries for officers, one-and-a-half times their salaries for department heads and salesmen, the amount of their earnings for other employees with five years' service, one half their earnings for three to five years' service, and one quarter for one to three years' service.

Company K. Unlimited plan started in 1926 in small company with twenty employees. All profits, after eight percent has been paid on stock, are distributed among employees. Payments to individuals are based on earnings and service, with one year's service rating one percent; two years' one and a fourth percent; three years', one and a half percent; four years', one and three-fourths percent; and five years' or more, two percent of earnings.

Company L. Unlimited plan started in 1913. After ten percent is deducted for dividends, the balance is distributed on the basis of five percent for six months' service; six percent for two years'; seven percent for three years'; nine percent for five years'; and ten percent for six years' or longer. No payments are made to employees who own company stock.

Company M. Unlimited plan started in 1917 and revised in 1933. Employees contribute five percent of their earnings and the company contributes fifty percent of net profits after dividends to a fund for providing death benefits and retirement incomes.

Company N. Limited plan adopted in 1923. Employees earning over $1,800 a year, except management and sales employees, participate in a distribution of one third of net profits in excess of five percent, but not more than ten percent, plus fifteen percent of net profits in excess of ten percent.

Company O. Limited plan started in 1916. Key men receive the same percentage of net profits that is paid on stock in excess of six percent. Thus, a ten percent dividend to stockholder would result in four percent payments to participating employees.

Company P. An unlimited plan adopted in 1933, combines profit sharing and retirement incomes. Employees with at least six months' service share twenty percent of net earnings before deduction of federal income taxes or dividends. Part of this fund purchases the employee's share of an annuity, to begin at age 65 for men and 60 for women, of one and a half percent of their

average monthly earnings for each year of service. The accrued old age liability is otherwise provided for by the company. What remains from the profit sharing allotment after the payments for annuities is distributed in cash on the basis of earnings. Employees laid off in slack seasons do not lose their claim to a share of the profits.

CHAPTER IV

IV. Factors Affecting Profit-Sharing Plans

In recent years, and especially after the beginning of World War II, profit sharing has been confronted with new difficulties. These come from publicity and governmental restraints on executive compensation, United States Treasury regulations, wage and salary stabilization, and the uncertainty of the attitude of the courts.

A. Publicity and Governmental Restraints [1]

Companies under the jurisdiction of the Securities and Exchange Commission are directed to send proxies to stockholders giving full details of any proposed plan of executive compensation. The Revenue Acts of 1934 and 1938 have also given publicity to executive compensation over a specified amount. In 1934 the annual compensation of employees over $15,000 had to be reported to the Secretary of the Treasury, and he in turn reported to Congress. The Act of 1938 set the limit at $75,000, rescinding the former minimum of $15,000. The reports of both the Treasury and the Securities and Exchange Commission may be inspected by the public. Litigation initiated by stockholders, investigations by equity receivers, bankruptcy trustees and governmental agencies have brought disclosures on corporate payments to executives and have contributed to publicity of executive compensation.

Other actions of the government have imposed restraints on

[1] This material and that on taxation were derived principally from Washington, G. T., Corporate Executives' Compensation, New York: Ronald Press, 1942, 519 pp.

executive compensation. In 1933 salaries of employees of air and ocean mail contractors were limited, but in 1938 the statute was amended to apply only to ocean mail carriers. In 1933 the Reconstruction Finance Corporation was not permitted to loan to companies which paid compensation in excess of what appeared reasonable to the Corporation. The Vinson Act of 1934 and subordinate Treasury Decision 5000 required refund to the United States Treasury of all profits in excess of stated percentages in fulfilment of contracts for aircraft and vessels for the Army and Navy. Bonuses to employees, but not to officers, were held an allowable cost if reasonable and if related to service necessary to the contract. In 1940 the second Revenue Act largely superceded these limiting provisions, but Treasury Decision 5000 remained of first-rate importance. Some contracts made by the Maritime Commission for the construction of ships contained clauses tending to restrict salaries paid to officers of the contractors. They require return of profits in excess of ten percent and limit to $25,000 the amount of any single salary which may be taken into account in determining costs. The War Department's fixed-fee construction contracts tied executive compensation to individual earnings in the preceding year, plus such increase as the constructing officer may approve.

B. Taxation

The higher corporate and personal income taxes of the war years imposed severe restraints on executive compensation. If a company paid unreasonably large compensation, the amount in excess of the level of reasonableness would not be allowed as a deduction and the tax paid by

the company would be correspondingly increased. The Economic Stabilization Act looks with disfavor as an attempt to evade taxation the giving in a profitable year of bonuses or substantial salary increases in amounts sufficient to absorb a considerable part of the profits.

Increased income taxes have greatly reduced the net compensation of higher salaried company officials. Some executives have tried to recover the loss incurred by negotiating tax free, tax reimbursement or tax anticipation contracts and deferred compensation plan with their managements.

Higher taxation has not only given an impetus to profit sharing for rank and file employees, in the form of profit-sharing retirement plans, but also for executives, as a means of recouping for them the reduction in their net incomes at slight cost by reason of the savings in taxes.

One duty of the Subcommittee of the Committee on Finance, in its investigation, was to consider whether the government should encourage profit sharing through, for example, the grant of compensatory tax exemptions and tax reward when profit sharing is voluntarily established. The Subcommittee recommended a profit-sharing-savings-retirement fund, and in the body of the report, gave favorable consideration to the exemption from all income taxes of payments to employees from a cumulative profit-sharing retirement fund and also to the issuance and sale of United States government profit-sharing fund bonds available only for profit-sharing funds and issued for the protection of profit-sharing fund investments. However, in the end no legislation was recommended.

C. Recent Legal Developments

Most of the prewar type of profit-sharing plans were of the discretionary or immediate-distribution type. Management decided in its sole discretion, the amount of profits to be distributed at the end of any taxable year--or to skip the contribution; whether the profit sharing would be done before or after a basic return on capital; who should get those profits, whether they should be apportioned to management alone, to labor alone, or to both; whether the allocation would be merely in proportion to salary or whether weighting should be given to years of service and to merit; whether distributions should be made in cash or accumulated; whether the accumulations should be paid out from time to time at the discretion of management or at fixed contingencies, such as death, disability, retirement, or severance of employment; whether accumulations should be invested in company's securities; whether to continue the plan or terminate it. Most of the profit-sharing plans, whether discretionary or formal, distributed the profit shares immediately--either in cash or by participation in employee common stock.

In the wartime type of profit-sharing plans, salary and wage stabilization forbade new immediate-distribution types without governmental approval, but it permitted those of the accumulation type. The company must in nearly all cases secure explicit approval for the initiation of a profit-sharing plan or for the significant modification of any existing plan from the Commissioner of Internal Revenue, if it is intended to charge profit-sharing payments to operating costs. An employer creating a profit-sharing trust must make certain that it is in compliance with Section 165 (a) of the Internal Revenue Code, as amended by the Revenue

Act of 1942. This requires that payments into the fund must be made according to a definite formula which leaves the company no powers of discretion and does not discriminate in favor of higher paid employees. The allocation, in most cases, must be proportioned to individual earnings, and the plan must have general application. During most of the war period, approval was also required from the War Labor Board and the Salary Stabiliz ation Unit of the Treasury with respect to compliance with the Economic Stabilization Act of 1942.

Before 1942 profit sharing by a company was not surrounded with government regulations. If cash bonuses were distributed to employees, the individual employee recorded his share as income in his tax return and the company charged its total contribution to operating expenses.

As regards plans established after the Economic Stabilization Act of 1942, since they obviously would amount to an increase in pay, approval of the War Labor Board and the Salary Stabilization Unit was required. Approval was dependent upon the inclusion of provisions for distribution only on death, retirement, sickness or disability, with cash distributions to active employees permitted only after a fixed period, not less than ten years, and thereafter over a period of at least ten additional years, and distribution upon termination of employment of not over twenty percent of the participation employee's total credits in any one year after such termination.

The lifting of restrictions on certain wage and salary increases by Executive Order No. 9599 in 1945 wiped out the need for obtaining approval for all types of such increases, including profit-sharing plans, as long as they were not to be used as the bases for seeking an increase

in price ceilings, or for resisting justifiable reductions in price ceilings, or for an increase in costs to the United States Government.

A ruling of the Bureau of Internal Revenue on October 4, 1945, interpreted the order in its application to stock bonus and profit-sharing plans as follows:

> . . . (Plans) intended to meet the requirements of Section 165 (a) of the (Internal Revenue) Code, as amended, may now provide for immediate lump-sum payments of the benefits other than those upon the death, retirement, sickness or disability of the employee without the necessity of approval for salary stabilization purposes, if the payments of such benefits are made upon the conditions prescribed in Executive OrderNo.9599 (price ceiling relief). It should be observed, however, that provisions for lump-sum payments which effect a liquidation of the trust and cause the termination of the plan may result in retroactive disqualification of the plan and a finding that the trust was not at any time entitled to exemption under Section 165 (a). . . . Since the payment of benefits of any type under a stock bonus, profit-sharing or other employees' plan is governed by the express provisions with respect thereto in the plan, or trust agreement forming a part thereof, it should be noted with respect to the stock bonus and profit-sharing plans now in effect that appropriate amendments may be necessary before benefits other than those on death, retirement, sickness or disability of the employee may be paid in a lump sum, or in any other accelerated manner, upon the happening of the contingency involved. Plans previously approved as meeting the requirements of Section 165 (a) of the code which are thereafter amended only to accelerate (subject to the conditions prescribed in Executive Order No. 9599) the payment of such benefits need not be resubmitted for rulings on the qualifications of the plans, as so amended, under Section 165 (a). [1]

Most existing approved 165 (a) profit-sharing plans were established before the Treasury executed its rules and before the fact-

[1] PS No. 53, issued October 4, 1945, by the Pension Trust Division of the Bureau of Internal Revenue.

finding issue was raised. For instance, some of the things employers did not know when most existing profit-sharing plans were established are:

1. That the board of directors would not have discretion in determining the amount of profits to be allocated from year to year (IT 3661, released May 25, 1944).

2. That profit-sharing plans could not be terminated at will (IT 3661, and PS 52, released August 9, 1945).

3. That profit-sharing plans would not be allowed to weight for past service if such weighting resulted in discrimination in favor of the highly compensated (IT 3685 and IT 3686, August 28, 1944).

4. That the Treasury would make a distinction between pension and profit-sharing plans (IT 3660, May 23, 1944).

5. That investment of profit-sharing trust funds in the stock or securities of the employer would mean that there must be full disclosure of the reasons and conditions (Section 29. 165-1 (a) of Regulations 111, July, 1943 and PS 49, June 16, 1945).

6. That discrimination in favor of employee stockholders would not be permitted the thirty percent rate. In general, all stockholder employees holding ten percent or more of voting stock, directly or indirectly, cannot together get more than thirty cents of each dollar the employer contributes each year to the plan. (IT 3674, July 11, 1944).

7. That salary classification profit-sharing plans would not necessarily be considered discriminatory (Mimeograph 5539, July, 1943, and subsequent releases).

8. That vesting might be required under profit-sharing plans (PS 22, September 2, 1944).

9. That early termination of plans would be considered evidence that they were not bona fide plans (PS 7, July 29, 1944).

10. That employer contributions to pension plans need not be fixed level premium payments (Legislative history, Internal Revenue Code regulations and rulings).

11. That a formula requiring contribution of a specified percentage of compensation regardless of profits is not a profit-sharing plan (PS 24, September 2, 1944).

12. That while new rulings have generally no retroactive effect, with respect to specified important rulings, plans previously approved must be amended by the end of the taxable year following the year in which the ruling was issued, retroactive to the beginning of such following year. This is true with respect to integration, stockholder rule, and definite formula (PS 35 Revised, November 16, 1944).

13. That stock bonus or profit-sharing plans may not be used to meet the cost of pension plans (PS 37, October 7, 1944).

14. That deductions are allowable only with respect to contributions made by an employer for his own employees in a joint profit-sharing plan maintained by affiliated employers where the contribution formula is based upon consolidated net income (regardless of whether employers filed consolidated or separate returns) (PS 51, Part B, July 31, 1945).

D. Attitudes of the Courts.

To the uncertainty created by the regulations is added a further great uncertainty about the attitude of the courts. In enforcing the

Treasury's regulations, the courts have been concerned with the question of tax evasion. They have not considered it their function in this area to protect stockholders against unduly high executive and employee compensation. The cases since 1942 involving Section 165 (a) of the Internal Revenue Code are few and most of them deal with bonus payments. The court applied a test of reasonableness in each of these cases and asked whether the amount distributed was "reasonable" and represented compensation for "reasonable" services rendered. If so, it was held that such payments could be deducted as ordinary and necessary expenses of the business. But the test of reasonableness cannot be analyzed in general terms, since such variable factors as size of the corporation, the number of employees affected, whether the compensation was determined for family relationship and stockholding reasons, absences of executives for long periods during the year, etc., lead to apparent inconsistencies in the decisions. A principal question is whether executives were simply sharing in profits of undue financial and industrial concentration or whether it was merely a case of big companies paying big compensation. This question was brought to the fore by the litigation in the cases of the American Tobacco Co., the National City Bank of New York City, Warner Bros. Pictures, the National Cash Register Co., Loew's Inc., General Motors Corp., and the Bethlehem Steel Corporation.

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CHAPTER V

V. Relation of Profit Sharing to Present Trends

A. As a Remedy for Economic Instability

In England in the eighties and in the United States in 1937 the organization of unskilled workers into trade-unions was followed by labor crises. The economic waste and political unrest resulting from sit-down strikes led to a search for remedies. Profit sharing arose from obscurity as one of the antedotes to labor warfare in England then and to sit-down strikes in the United States now.

Profit sharing has larger implications than attaining peaceful labor relations. Its wide extension should help to smooth out the fluctuations in the business cycle and thus check the inroads of the State on private business enterprise during depressions. There are many theories of the cause of business cycles. One group of causes has certain elements in common, disequilibrium in income and purchasing power and resulting inability to buy the goods produced. Herein may lie one significant use of profit sharing. It makes wages vary with profits, or selling prices. It stabilizes profits, industrial production, employment, and consumer purchasing power. If wages and other costs are rigid when prices fall, profits turn to losses and threaten bankruptcy. There is a need for flexible costs to avoid violent fluctuations in earnings and in production of a corporation or an economic society.

Aside from the economic or cyclical factors, profit sharing has political implications. If we avoid those wage practices which cause violent fluctuations in the economy, with the resulting national economic instability and insecurity for the individual, and the turning

toward government for relief, we can continue to function under our system of private enterprise. The system of private enterprise has the manifest advantages of flexibility and opportunities for individual effort. Profit sharing between capital and labor opens possibilities of an evolution along new lines. Critics of the corporation and of modern society charge and cite concentration of wealth and power in great economic aggregation, absentee ownership, the separation of ownership and management, the separation of ownership and labor. A scheme of profit sharing would give the worker a sense of ownership in the plant to the extent that he participates in the profits. It would reconcile many of the conflicting interests of labor and management.

B. Labors' Attitude Toward Profit Sharing

By the turn of the century profit sharing had begun to attract the attention and arouse the opposition of organized labor. Union leaders felt it was a device to prevent workers from organizing and an excuse for low wage rates and substandard conditions of employment. Labor feared also that it might lead to sharing of losses during depressions. Samuel Gompers said in 1899, ". . . I would look upon such propositions with a very great deal of suspicion. There have been few, if any, of these concerns (companies with profit-sharing plans) that have even been comparatively fair to their employees." [1]

One hundred years ago when Leclaire attempted to introduce

1 United States House of Representatives, Report of the Industrial Commission on the Relations and Conditions of Capital and Labor Employed in Manufactures and General Business, Washington, 1901, (Document No. 495) Vol. 7, pp.644-645.

profit sharing he was criticized by labor in France as attempting to reduce wages. In 1923-25 the British Trade Union Congress rejected copartnership and profit sharing as a device to mislead workers and prevent trade-union solidarity. The union leaders' opposition is due to the fear that harmony of interest between employer and employee would tend to the abandonment of unions, to an aversion to strike and to lessening the importance of labor union leaders.

Following are summarized statements by the two prominent labor leaders in the United States. William Green, President of the American Federation of Labor, in 1939, stated in effect that labor is not opposed to the principal of profit sharing, but to the way in which it has been developed and operated. Those plans which oppose collective bargaining and trade unionism hinder the development of profit sharing on a sound basis. Labor believes that all plans affecting labor must rest on collective bargaining. Therefore, Mr. Green advocated that "all of the terms and conditions of payment for work should be determined through joint conferences of representatives of management and workers concerned and carried to mutual agreement upon issues discussed. . . . Labor cannot be asked to accept blindly management's decision on what constitutes profits. All of the facts must be available." [1] He states that the first obligation of industry is to establish wage payments through collective bargaining, to insure a decent standard of living. If, after this, the earnings of the industry justify an equitable distribution of the profits

[1] United States Senate, Survey of Experiences in Profit Sharing and Possibilities of Incentive Taxation ... op. cit., pp. 105-106.

of the industry between investors, management, and employees, then let it be done cooperatively. [1]

John L. Lewis, President of the Congress of Industrial Organizations in 1939, and now head of the United Mine Workers, agreed with Mr. Green's statement that collective bargaining with employers must be used in regard to wages, hours, and working conditions. After adequate wages have been established, then profit sharing may be installed, through management-labor cooperation. [2]

C. Conclusion

During most of the history of the profit-sharing movement, trade unions were weak, and management policy on the disposition of company profits was little hampered by actions of unions or government. The recent growth in the strength of unions, the greater intervention of government in business by way of higher corporate and income taxes, wage and salary control, publicity on executive compensation, and the trend toward government policy in favor of low-income groups weigh heavily in management decisions on policy.

Such impetus as there is behind the profit-sharing concept derives largely from three factors. (1) Management desires to secure stability of wage costs. (2) Management believes that enabling the members of the executive group to share in profits will aid in securing and retaining competent executives. (3) Management, by distributing to employees excess profits that otherwide would largely be absorbed in taxes,

[1] Ibid., pp. 105-107.
[2] Ibid., pp. 189-190.

is able to cultivate employee good will at low cost.

Many profit-sharing plans for executives have been discontinued because of unfavorable public reaction, and inability to effect an equitable distribution based on merit or accomplishment without charges of discrimination. The hostile attitude of trade unions toward profit sharing presents another problem. The unions hold that any profits a business can afford to distribute to its employees should be included in their basic wage rates.

The principal declared objectives of management as regards profit-sharing plans are: (a) to provide an incentive for increased production, (b) to promote employee security, (c) to advance the social status of the worker by making him a part owner of the business and a participant in its profits but not in its losses, and (d) to improve employer-employee relations.

Profit-sharing plans represent the evolution of economic democracy as the complement to political democracy. Necessary, before a profit-sharing plan can be installed, is a sound employee program.

The primary obligations of a company to its employees, as now generally recognized, are (1) to maintain wage rates and conditions of employment at least equal to those prevailing in the community for work of the same kind, (2) to afford as high a degree of regular employment as possible, and (3) to provide a reasonable measure of social security beyond legal requirements. Profits remaining for possible distribution to employees should be directed to the fulfillment of these primary obligations, first.

As stated before, the unions prefer to raise wages if there are

excess of profits, instead of participating in a profit-sharing plan. Recently, however, the American Federation of Labor has reconsidered the problem, which was irritated by the Nathan Report. The situation is as follows: In 1946 the Congress of Industrial Organizations claimed that industry could pay a twenty-four percent or a thirty percent wage increase without raising prices. Their efforts resulted in an 18½ cent wage formula (about 18½ percent) and a living cost rise of equal amount. They made the same kind of claim again in 1947, that industry can pay a twenty -five percent wage increase without raising prices.

This claim is based on a report of Robert R. Nathan Associates which reasons as follows: When profits of all corporations (after taxes) are added together, the resulting figure is large enough to furnish a twenty-five percent wage increase for their employees, provided that profits retained by the corporations are cut back to the level which prevailed in 1936 to 1939. In other words, a sixty-eight percent cut in profits would provide a total sum of money large enough to pay a twenty-five percent wage increase.

According to the American Federation of Labor:

> This figure on paper has nothing whatever to do with the realities of industrial operation or with collective bargaining. Unions negotiate with thousands of companies, each faced with different conditions affecting their ability to pay higher wages. Some can pay more, some less. There could be no pooling of profits, such as the report presupposes, except under a totalitarian state, Even if it were possible to force a 25% wage increase on American industry generally, the necessary 68% cut in profits would put thousands of companies out of business, and throw millions of workers out of jobs; it would reduce profits to the low level of 1936 to 1939 when 8½ million were unemployed and industry was not earning enough for the normal new plant

> and equipment which expands production and raises living standards.
>
> It is true that many companies show enough profit in 1946 to allow for adequate plant expansion and also provide substantial wage increases for workers. It is vital that workers' wages be raised by the highest amount possible without increasing prices if our high level of production and employment is to continue. But it is not true that industry can afford a 25% general wage increase in 1947. [1]

A logical conclusion as to what can be done is the sharing of profits. Since the objective of both labor and management is to raise the standards of living by increased economic security, it is reasonable to institute a high basic wage rate, which would include, and take into consideration, the marginal producers. Over and above that basic wage, the more efficient producer can distribute shares in profits.

Burritt sums up his conclusions as to the conditions under which profit-sharing plans are applicable. He states that profit sharing can encourage personal effort if used under the right conditions, and that it is especially good for stimulating effective management--mostly through departmental or unit profit sharing. Group plans are useful in developing cooperation. Permanence of service is secured if the plan is supplemented by proper selection, training, promotion policies, proper working conditions, and adequate wage and salary standards. Profit sharing promotes industrial peace by expressing a desire for the right management-labor relationship. However, profit sharing is not a substitute for good management, nor for personality. There must also be enthusiasm,

[1] American Federation of Labor, Labor's Monthly Survey, (January 1947). p.5.

leadership, foresight and aggressiveness. It is not a substitute for the wage system, as the flat wage is supplemented by an additional payment representing a share in the profits. Finally, profit sharing cannot solve all the problems of industrial relations. [1]

Some authors argue that profit-sharing plans are not, and can never be, a substitute for pension plans.

> Increases in salary are fine; profit sharing plans are fine; but neither serves the purpose for which a soundly constructed pension plan is created. A company can function successfully without a profit sharing plan if it has a retirement program, but thus far the profit sharing plan alone has generally not proved sufficient. [2]

Undoubtedly profit-sharing plans are not a substitute for pensions. Some companies, which are in the minority, have evolved desirable and sound profit-sharing plans. Those companies generally have long-established effective successful pension systems, other forms of employee benefits, and a well-rounded employee benefit system. Under these conditions profit-sharing plans are generally successful. If the pension plan is ineffective, the employer would do better to enlarge the benefits under their pension system by merging the two types of plans into one effective pension plan. Employers with a profit-sharing plan, but no pension plan, would do better to merge the plan into an effective pension plan.

When can profit sharing be instituted, and under what conditions will it be successful? To have a successful profit-sharing plan, the industrial atmosphere in any company must be healthy. Profit sharing involves

[1] Burritt, op. cit, pp. 249-257.
[2] Buck, op. cit.,

the question of timing. The correct time to evolve a plan is when regular wages are at least as high as the going rate paid in the community and by competitors in communities of the same size and with approximately the same living costs. Also, previously installed pension, benefit and welfare plans must be functioning satisfactorily. Finally, the company's relations, management, labor, public, and government, must be sound. If these conditions are met, and if, most important, there are enough profits to share, then the plan will be effective. To reiterate, the type and timing of the plan are important.

> . . . profit sharing in one form or another, has been and can be eminently successful, when properly established, in creating employer-employee relations that make for peace, equity, efficiency, and contentment. We believe it to be essential to the ultimate maintenance of the capitalistic system. We have found veritable industrial islands of "peace, equity, efficiency and contentment," and likewise prosperity, dotting an otherwise and relatively turbulent industrial map, all the way across the continent. This fact is too significant of profit sharing's possibilities to be ignored or depreciated in our national quest for greater stability and greater democracy in industry. The profit-sharing ideal, as an ideal, is invincible. [1]

Profit sharing is an effective device in its approach to industrial relations, and national stability. To succeed, it must be built upon a foundation of integrity and good faith, harmony and sincerity, patience and tact. It requires moderation and progress. It calls for enlightened leadership on both sides. It stresses social consciousness. With these qualities, profit-sharing converts a visionary ideal into a reality.

[1] United States Senate, Survey of Experiences in Profit Sharing and Possibilities of Incentive Taxation; Report of the Subcommittee of the Committee on Finance . . . Pursuant to S. Res. 215 . . ., Washington, 1939, (Report No. 610) p. 5.

APPENDIX A

HOW ERIC JOHNSTON PLANS TO SHARE PROFITS

Both profit-sharing and share-in-management features have been applied before in American industry. Johnston's plan is unusual in interlocking the two in his four companies (in Spokane, Washington) in the share of profits to be distributed--twenty-five percent before taxes or dividends--and in the variations made to meet conditions.

The basic formula for the profit-sharing plan is based on a unit system. Employees receive:

1 unit for each $100 of annual compensation.
1 unit for each year of service.
5 units for each term on junior board of directors, non-cumulative and for current year only.
5 units for supervisors.
15 units for assistant departmental managers.
25 units for departmental managers. [1]

Production workers in the four companies belong to the American Federation of Labor unions with a total of six crafts and about the same number of locals. Labor relations are generally amicable. No changes in wages, working conditions, or labor relations are contemplated. Executives of the four companies advise:

1. Application of any formula must be carefully fitted to conditions in the company.

2. Every part of the program must be carefully explained to employees.

3. Plans are above the zone of labor relations.

4. Management must be prepared for realistic reaction from employees.

[1] Notes and Quotes, op. cit., July, 1946.

5. Plans must be sincere, capable of being lived with. They cannot pull labor relations' chestnuts out of the fire.[1]

In an article written at the time of installing this plan, Johnston has presented his "Apologia Pro Vita Sua":

> Under socialism, in theory, every man works for the state. In return for this he is supposed to get security against the evils of life. The state is his perpetual master, and he is presumably its loyal and happy servant.
>
> Under capitalism the theory is that every man is a free agent, even though he is on someone else's payroll. Nobody can tell him what job to take or how long to hold it. Nobody, we say, stops an employee from blossoming into an employer.
>
> Here in America, which represents the fullest development of the capitalistic system, we assure each other firmly that we believe in it with all our hearts. But we know our system is far from perfect. The imperfections permit a noisy minority to jab at sensitive spots in the anatomy of capitalism. This scares some of the believers in capitalism, who seem to be afraid to jab back. Meanwhile, the most of Europe is going hell-bent for socialism.
>
> If we believe in capitalism as we say we do, it is about time we went hell-bent for capitalism. So far, in spite of our magnificent successes, some of which we must admit were the result of fool's luck, we have given little more than lip service to the doctrine of capitalism.
>
> If capitalism involves a system of private enterprise, that means we can't look to government to keep it alive and to make it grow, because in that way lies statism. If capitalism is a system wherein the individual is supreme and supremely free, then it is up to us to insure that this supreme freedom is not the privilege of a few individuals but of all. Benefits must go to all men along with freedom of action.
>
> We say that under capitalism every man has a chance to take a chance. The unpleasant fact in this day is not

[1] Idem.

every man can take a chance. Not every man shares fully in the profits of the profit system.

The average American today is frustrated by his inability to bet on himself. He knows that he is in the capitalistic system, but he doesn't feel that he is of it. He can count on nothing but his pay envelope, and in bad times not always on that. He works for a flat fee. He can't look forward to anything but that flat fee. There is no excitement, no adventure in that. Without an opportunity to reap more from the profit system than a salary or a wage, the average man cannot be blamed if he feels no sense of kinship to the profit system.

Obviously, all people cannot have businesses of their own, but this is no reason why they should not have their American right to share more fully in the benefits of our system. If they can't be in business for themselves, they can be brought into closer partnership with their employers, and take chances on the profits with them.

The four West Coast companies with which I am associated had long sought a way to do this. We finally came to the belief that an effective labor dividend and multiple management program would bring about a situation where our employees would say "we" instead of "they."

We wanted our business enterprises to become joint projects, with the interests of the owner and the worker welding into one;we wanted our workers to determine along with us the chances we should take, and then share in the profits of those chances if they should be realized. Welcoming the advice and suggestions of the workers did not, of course, mean that management renounced its right to manage. Final decisions, we felt, properly lie with management, but no management has a monopoly on ideas, and ideas are the rarest gems in business.

There is nothing altruistic about our program. We think the adoption of labor dividends and multiple management is practical, realistic, and sound business. We do not claim that our plan is the complete answer to industrial strife. Nor that it is newly invented. For years progressive businessmen have worked toward the goal of giving their employees a voice in the problems of their businesses and a fair share of the fruits of their labor. We are simply

applying techniques of our own devising to our own particular enterprises. We think that our program will minimize human friction. But we know that any such plan will operate successfully only if management works at it as hard as management works at turning out good products for good profits.

The labor dividends, our employees have been told, are not intended to be substitutes for decent salaries or fair wages. We intend to continue to bargain collectively with our employees on rates of pay, hours of work and working conditions.

The labor dividend is a reward for contribution to the success of the business. The program is based on 25 percent of the net operating profit before taxes and dividends. We intend to pay it to employees in lump sums once a year. We have set up a point system for employees, so that each will receive his just portion, based on such things as length of service, personal responsibility and the going rate of fixed compensation. The principle is this: to demonstrate to the worker the direct relationship between his production and his dividend.

There are other ways of applying incentives, of course--stock distribution, production bonus system (both individual and group), rewards for outstanding effort. All of these point in the same direction.

Higher company earnings always flow from better management. The best management requires that all talent within any business be called upon for ideas. We think the best way to do this is through a multiple-management plan. Ours will operate in each company through a junior board of directors--seven members, a cross section of office, sales and factory employees. After the original selection new members of the junior board are elected by the boards themselves. Every six months there may or may not be a turnover of two members, depending on the decisions of the junior boards themselves. Top management executives or senior board members may not serve on the junior board.

The junior boards fulfill two essential purposes: they supply ideas for betterment of the business and they are training grounds for top management positions--perhaps, indeed, for membership on the senior directors' boards.

Their plan in no way interferes with the union shop

committees which represent the organized workers in our plants or their relationship with the management.

Aggressive ambition on the part of the individual is the lifeblood of capitalism. The more of it we can churn into action, the better for us. The two systems of capitalism and socialism will compete throughout the world for the minds of men. The two systems are on trial. In the final analysis that system which provides the greatest benefit to the greatest number of individuals will win out. I'm betting on capitalism. [1]

[1] Eric A. Johnston, "Labor Should Have a Stake in Capitalism," The New York Times Magazine. February 2, 1946. p. 5.

APPENDIX B [1]

SUMMARY OF PROVISIONS OF EIGHT PROFIT-SHARING PLANS FOR ALL EMPLOYEES

Company, Industry, Type and Date of Plan	Eligibility Requirements	Proportion of Annual Profits allocated for distribution
Andersen Corporation, Bayport, Minn. (Wooden window and door frames) Profit-sharing plan Initiated 1914.	3 months' service	After deducting from profits 6% on invested capital, a portion of the remainder is allocated to employees in the ratio that total payroll bears to the sum of capital investment and total payroll with the balance allotted to stockholders.
Eastman Kodak Company, Rochester, N.Y. (Photographic materials) Wage Dividend Plan Initiated 1912.	Employment at end of preceding calendar year and at date of annual distributions, in March.	0.005% of participants' compensation for preceding 5 years for each dollar by which common stock dividends for preceding year exceed $3.50 per share.
Geo. A. Hormel and Company, Austin, Minn. (Slaughtering and meat packing) Joint earnings plan Initiated 1938.	1 year of continuous service.	A joint earnings account, which is the gross income after all expenses except compensation of participants, is allocated to employees and stockholders on the basis of a sliding scale, but stockholders do not participate until participants receive regular wages.

[1] Stewart and Couper, op. cit., pp. 122-123, 130-135, 1945.

Basis of Apportionment to Employees	Payment provisions	Administration
In proportion to employee's earnings, with executives and foremen receiving double the regular rate, except that a portion of the total allocation, not to exceed 25%, is used to pay 6% interest to those who have saved their profit-sharing payments, with a view to rewarding the saver at the expense of the non-saver.	Cash, semiannually.	Management and employee representatives.
In proportion to employee's earnings for preceding 5 years, with annual minimum of $15.	Cash, annually. Resignation (Except females to marry) or discharge: Employee forfeits wage dividend.	Board of directors.
In proportion to employee's earnings.	Cash, annually.	Board of directors.

Company, Industry, Type and Date of Plan	Eligibility Requirements	Proportion of Annual Profits Allocated for Distribution
Kansas City Public Service Company Kansas City, Mo. (Utility) Employees' Participation Plan Initiated 1931; revised 1941.	3 months' continuous service.	25% of net income after taxes.
Criterion Machine Works, Los Angeles, Calif. (Machinery) Employees' Profit-sharing and Savings Plan. Initiated 1940	1 year of continuous service. Contributions of not less than $2\frac{1}{2}\%$ or more than 5% of earnings, subject to annual maximum of $200.	10% of net operating earnings after deducting all taxes, subject to a maximum amounting to 4 times employees' contributions. In case of company losses, no allocations are made in subsequent profit years until loss is made up.
Pacific National Bank of Seattle, Seattle, Wash. (Banking) Employees' profit-sharing Retirement Plan. Initiated 1944; revised 1945.	3 years' continuous service. Regular employment of 20 or more hours per week, 5 or more months per year.	5% of net profits before taxes, subject to an annual maximum amounting to 15% of participants' compensation, excluding individual earnings over $12,000. When maximum falls below 15%, greater allocations may be made in succeeding years in order to level annual allocations at that maximum.

Basis of Apportionment to Employees	Payment Provisions	Administration
In proportion to employee's earnings.	Cash annually.	Board of directors.
In proportion to employee's contributions. Credits forfeited as a result of employee resignation or dismissal are prorated to other employees' accounts in proportion to their credits in the fund.	Payments to employees may be made in cash, securities or both. Retirement or Disability Share of fund in full or in 11 annual instalments. Death: Full share of fund Resignation or Dismissal Own contributions, and $\frac{1}{2}$ of his share of company allocations, and interest on both.	Administrative Agent: 3 management and 2 employee representatives. Investment Provision restricted to U.S. Government bonds, notes, etc.
In proportion to employee's earnings. Credits forfeited as result of employee resignation or dismissal prior to 18 years service are prorated to other employees.	Payments may be made to employees in cash, securities, annuity or endowment income contract. Retirement, Disability or Death: Share or fund in full or in instalments of at least $300 each half year for not more than 10 years. Resignation or Dismissal 25% of share, and additional 5% for each year of service, up to 100% for 18 years' service.	Administrative Agent: Board of directors and corporate trustee. Investment Provision: Investment in company stock not permitted.

Company, Industry, Type and Date of Plan	Eligibility Requirements	Proportion of Annual Profits Allocated for Distribution
Albright-Nell Company, Chicago, Ill. (Machinery and equipment for meat packing and allied industries) Savings and Profit-sharing Fund Initiated 1937; revised 1944	2 years' continuous service. Contributions of not less than 2% or more than 5% of earnings, subject to annual maximum of $200. Participation compulsory.	10% of net operating earnings available for dividends after all expenses, taxes and deductions authorized by board of directors, subject to a maximum amounting to 4 times participants' contributions. In case of company losses, no allocations are made in subsequent profit years until loss is made up.
Procter and Gamble Company, Ivorydale, Ohio. (Soaps and edible fats products) Profit-sharing Dividends for Employees Through Stock Ownership.	1 year of continuous service. Contributions of 5% of earnings, subject to annual maximum of $100 for 6 years. Employment on production, operation, maintenance or related work; regular annual earnings of $3,000 or less if employed on clerical, sales, staff, supervisory, technical, administrative or executive work.	Company allocations are determined quarterly on the basis of length of participation and of total annual payroll for participants, excluding individual earnings over $2,000. No account is taken quarterly of earnings of any participant in excess of $500, but at end of last calendar quarter adjustments may be made.

Basis of Apportionment to Employees	Payment Provisions	Administration
In proportion to employee's contribution. Credits forfeited as result of employee resignation or dismissal or unpaid loan are prorated to other employees' accounts in proportion to their contributions.	Payments to employees may be made in cash, securities, or both. Retirement or Disability: Share of fund in full or in instalments over 10-year period. Death: Full share of fund. Dismissal, or Resignation of Female to Marry: Employee's contributions, and at least $\frac{1}{2}$ of his share of company allocations, plus interest on both. Resignation: Share of fund in full after 11 years' participation. Otherwise, payment amounts to employee's contributions and interest thereon, plus 50% of company allocations and interest thereon for less than 2 year's participation and 5% for each succeeding year of participation. Loans: Employee having unpaid loan forfeits his share of company allocations, and his contributions are applied to liquidate loan.	Administrative Agent: 3 trustees and 2 employee representatives. Investment Provision: An amount at least equal to employees' contributions must be invested in government bonds or securities approved by Illinois laws governing investment of trust funds or in participating employee mortgages.
In proportion to employee's contribution except that $\frac{1}{2}$ of company's additional allocation is distributed in proportion to employee's salary in the ratio of 1 unit for each 5 full years of service. Credits forfeited as result of employee resignation, dismissal or other service termination are prorated to other employees in proportion to their contributions.	For first six years of participation, all funds used to purchase additional stock. At the end of this period, employee receives all paid-up stock and any cash balance. After this, and if employee holds 50% of his stock, dividends are paid quarterly in cash. Retirement, Disability or Death: All paid-up stock, plus any cash balance, or proceeds from sale of stock; if participant dies prior to 6 years' participation, beneficiary receives employee's contributions plus 6% interest. Resignation, Discharge or Withdrawal: Employee's contributions, plus 6% interest, or retention of stock after 6 years' participation.	Administrative Agent: Board of 3 trustees appointed by board of directors or employees of the company. Investment Provision: Company stock exclusively.

APPENDIX C

SUMMARY OF PROVISIONS OF FIVE NONTRUSTEED PROFIT-SHARING PLANS FOR EXECUTIVES

Company, Industry, Type and Date of Plan	Eligibility Requirements	Proportion of Annual Profits Allocated for Distribution
Johns-Manville Corporation New York, N.Y. (Building materials) Profit-sharing plan Initiated 1930	Senior and junior executives and any other employees who make exceptional contributions to profits, excluding the president.	At discretion of board of directors, amount not exceeding 7% of earnings, before taxes, but after dividends on the preferred stock and dividends of $3 per share on common stock. Part of this amount is held as a reserve fund for distribution to employees other than executives who make exceptional contributions to profits.
Owens-Illinois Glass Company Toledo, Ohio. (Bottles and glass containers) Management Bonus Plan. Initiated 1930; revised 1943.	At discretion of president: general executives and major department heads. President and chairman of board of directors.	The part of consolidated net earnings, before federal taxes and after $2 per share on stock, in excess of 10% of invested capital, is allocated in the ratio that aggregate salaries of participants bear to 10% of invested capital, subject to annual maximum of 8% of 10% of invested capital or 8% of net earnings in excess of 10% of invested capital.
W.A. Sheaffer Pen Company, Fort Madison, Iowa (Pens and pencils) Executive and Department Head Special Bonus Initiated 1928, revised 1941.	Executives and department heads in specified key positions, determined by management and board of directors.	In proportion to amount of dividends paid on common stock.

Basis of Apportionment to Employees	Payment Provisions	Administration
At discretion of president, subject to board of directors' approval following receipt of recommendation of profit-sharing fund committee of board of directors. Maximum individual share is 25% of salary.	Cash, annually.	President and board of directors.
In proportion to employees' earnings; president determines proportion of salaries to be considered. Maximum individual share is 100% of salary.	Cash, annually.	President and board of directors.
Each position is graded and evaluated in terms of a certain number of shares of common stock. Bonus is then equal to dividends on stock, weighted for each position by number of shares assigned to each position.	Cash, quarterly.	Board of directors and management.

Company, Industry, Type and Date of Plan	Eligibility Requirements	Proportion of Annual Profits Allocated for Distribution
Studebaker Corporation, South Bend, Ind. (Automobiles) Incentive Compensation Plan. Initiated 1940.	At discretion of board of directors: executive and key employees.	10% of excess of net profits before federal taxes and before deductions for the plan itself, but after deducting 6% of net worth for 1940-1942. At discretion of board of directors, in 1943-1945, but amount distributed approximates that of 1941, when one-half amount of profits available under formula was distributed.
Eaton Manufacturing Company, Cleveland, Ohio. (Automotive and aircraft parts) Executive Contingent Compensation Plan. Initiated 1935.	Executive and administrative officers and employees.	5% of net profits, after deducting amount of "contingent compensation" if \$1-1.99 per share; 6 and 2/3% if \$2-2.99 per share; 7½% if \$3-3.99 per share; 8%, if \$4 or more per share.

Basis of Apportionment to Employees	Payment Provisions	Administration
At discretion of board of directors.	Cash, annually.	Board of directors.
At discretion of committee of board of directors.	Cash or treasury stock annually.	Committee of board of directors.

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